Message Text

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EXDIS

FOR THE SECRETARY FROM SENATOR PERCY

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E.O. 11652: GDS

TAGS: OREP(PERCY, CHARLES)

SUBJ: SENATOR PERCY'S AUDIENCE WITH THE SHAH

SUMMARY: MET WITH THE SHAH SUNDAY, JANUARY 5, 10:30 A.M. TO 11:50 A.M. IN CANDID DISCUSSION OF VARIOUS SUBJECTS. HE IS CONCERNED WITH FUTURE SECURITY OF BOTH JORDAN AND SAUDI ARABIA, WITH FUTURE POSSIBLE LEFTIST PALESTINIAN STATE ON THEIR BORDERS, AND FEELS KUWAIT RIPE FOR A TAKE OVER. POSSIBILITY OF WAR IN THE MIDDLE EAST DEPENDS UPON WILLINGNESS OF ISRAEL TO BE REALISTIC ON NECESSARY WITHDRAWALS AND DRAMATIC OFFER BY ISRAEL SHOULD BE CONSIDERED. FEELS BREZHNEV'S TRIP CANCELLATION COULD BE DUE TO ILLNESS COUPLED WITH DISAGREEMENT OVER ARMS SUPPORT BUT FEELS U.S. ILL ADVISED IF IT LOOKS ON TRIP CANCELLATION AS REASON TO WITHHOLD PRESSURE ON ISRAEL TO TAKE A MORE REALISTIC APPROACH. DISCUSSED POSSIBLE SOVIET INTERVENTION IN MIDDLE EAST AND DOES NOT DISCOUNT THE USE OF AIRBORNE TROOPS IN SYRIA OR IRAQ WHICH WOULD AVOID DIRECT UNITED STATES CONFRONTATION. BELIEVES REGIONAL COOPERATIVE DEFENSE IN GULF AREA LED BY IRAN NECESSARY TO REPLACE STABILITY LOST THROUGH BRITISH WITHDRAWAL OF GUARANTEES, DISCUSSED ACTIVITIES OF TWO SECRET

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GOI BRIGADES NOW FIGHTING IN OMAN. RE-EMPHASIZED UNITED

STATES SHOULD CONTINUE TO SHOW FLAG IN PERSIAN GULF AND INDIAN OCEAN. ALSO DISCUSSED AMBASSADOR HELMS AND CIA PROBLEMS WITH CONGRESS, AFGHANISTAN AND HELMANDRIVER TREATY, MEXICAN CHARTER ECONOMIC RIGHTS AND DUTIES, WOMEN'S RIGHTS, SHARE OWNERSHIP AND PROFIT SHARING IN IRAN, MANAGEMENT DEVELOPMENT, INDEXATION, OIL PRICING POLICIES, RECYCLING OF PETRO DOLLARS. END SUMMARY. 1. INTRODUCTION:

RECALLING OUR CONVERSATION, MY PRESENT MIDDLE EASTERN TRIP ORIGINATED WITH REQUEST FROM THE SHAH TRANSMITTED BY AMBASSADOR ZAHEDI THAT I RETURN TO IRAN FOR A VISIT. DATE WAS ESTABLISHED TO PRECEDE SHAH'S DEPARTURE FOR JORDAN AND EGYPT.

2. PERSONAL GREETINGS:

HIS IMPERIAL MAJESTY RECEIVED ME AT NIAVARAN PALACE. I HAD POLITICAL OFFICER HENRY PRECHT WITH ME HOPING THE SHAH WOULD HAVE AIDE WITH HIM, BUT HIS MAJESTY WAS ALONE AND I WENT IN ALONE. EXTENDED WARM REGARDS FROM PRESIDENT FORD, VICE PRESIDENT ROCKEFELLER AND SECRETARY KISSINGER, AND EXPRESSED REGRET THAT AMBASSADOR HELMS WAS NOT IN TEHRAN. WE DISCUSSED BRIEFLY IMPLICATIONS OF CONGRESSIONAL INVESTIGATION OF ALLEGED DOMESTIC ACTIVITIES BY THE CIA.

3. WOMEN'S EQUAL RIGHTS:

I MENTIONED THAT IT WAS MOST SIGNIFICANT THAT ALL NEWSPAPERS IN TEHRAN THAT MORNING BANNER HEADLINED THE SHAH'S SPEECH ON THE NECESSITY OF WOMEN BEING MORE FULLY INTEGRATED INTO ALL SPHERES OF THE COUNTRY'S ECONOMIC AND SOCIAL LIFE AND EXPRESSED PLEASURE WITH THE OPPORTUNITY I HAD TO WORK WITH HIS TWIN SISTER, PRINCESS ASHRAF, IN NEW YORK AT THE UNITED NATIONS ON WORLD-WIDE WOMEN'S RIGHTS ISSUE. HE POINTED OUT THAT HE HE HAD ALSO EMPHASIZED THAT WOMEN HAVE TO COMPREHEND THE IMPLICATIONS AND RESPONSIBILITIES ENTAILED WHEN THEY ADOPT THEIR HUSBAND'S NAME. BUT, HE SAID, IRAN WILL CONTINUE TO LEAD THE WAY IN EMANCIPATION OF WOMEN AND IN PROVING LEADERSHIP TO THE UNITED NATIONS INTERNATIONAL WOMEN'S YEAR.

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4. EMPLOYEE OWNERSHIP:

I COMMENTED ON THE ESTABLISHMENT YESTERDAY IN IRAN OF THE NATIONAL INVESTMENT COMPANY DESIGNED TO ENCOURAGE SHARE OWNERSHIP IN PRIVATE INDUSTRIES BY EMPLOYEES AND THE PUBLIC. HIS MAJESTY INDICATED THAT HE FELT INDUSTRIALIZED COUNTRIES MADE A MISTAKE IN NOT ALSO ENCOURAGING STOCK OWNERSHIP BY FARMERS AND THAT IRAN INTENDED TO BRING RURAL AND INDUSTRIAL MANAGERS CLOSER

TOGETHER BY OFFERING OPPORTUNITIES TO FARMERS TO INVEST IN INDUSTRIAL SHARES. WE ALSO DISCUSSED THE VIRTUES OF PROFIT SHARING WHICH HE KNOWS I HAVE LONG ADVOCATED.

5. THE SHAH'S TRIP TO JORDAN AND EGYPT:

I ASKED THE SHAH ABOUT THE OBJECTIVES OF HIS TRIP TO JORDAN AND EGYPT WHICH COMMENCES JANUARY 6. HE INDICATED THAT HE WAS VERY CONCERNED ABOUT JORDAN AND ITS STABILITY. HOW, FOR INSTANCE, WOULD JORDANIANS STAND UP AGAINST PALESTINE, WHICH IF ESTABLISHED AS A STATE, COULD ONLY BE CONSIDERED LEFTIST AND RADICAL AS THEY LITERALLY HAVE NOTHING TO MAKE THEM CONSERVATIVE. I TAKE IT THAT THE BULK OF HIS CONVERSATIONS IN JORDAN WILL DEAL WITH REGIONAL SECURITY. HE ALSO EXPRESSED CONCERN ABOUT THE SECURITY OF SAUDI ARABIA WHICH WOULD BORDER ON A STATE OF PALESTINE. HE FEELS SAG IS NOT FULLY AWARE OF THE POTENTIAL DANGER IT FACES. HE HOPES WE WILL CONTINUE TO PRESS SAG TO STRENGHTEN ITSELF. HE EXPRESSED HIGH REGARD FOR SADAT, AND HOPED THAT ISRAELIS APPRECIATED THE OPPORTUNITY AVAILABLE TO THEM TO DEAL WITH A REASONABLE LEADER. ISRAEL, HE SAID, HAS MISSED

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OPPORTUNITIES IN THE PAST TO NEGOTIATE WITH JORDAN AND HE FEELS ISRAEL MUST NOW MAKE SOME DRAMATIC OFFER

INVOLVING WITHDRAWAL TO INDICATE ITS GOOD FAITH AND WILLINGNESS TO NEGOTIATE A PEACEFUL SETTLEMENT.

6. MIDDLE EAST WAR PROSPECTS:

I ASKED FOR JUDGMENT AS TO WHETHER THERE WOULD BE A WAR IN THE MIDDLE EAST THIS YEAR AND IF SO WHAT IRAN'S POSITION WOULD BE WITH RESPECT TO A WAR AND A POSSIBLE SECOND EMBARGO. HE INDICATED THAT THE KEY TO PEACE WILL DEPEND ON ISRAEL'S WILLINGNESS TO BE REALISTIC. IF THERE WERE A WAR IRAN'S SYMPATHIES WOULD BE WITH THE ARABS. BUT IT WOULD NOT BECOME DIRECTLY INVOLVED AS BEIRUT PRESS MISTAKENLY REPORTED. CERTAINLY IRAN WOULD NOT PARTICIPATE IN ANY EMBARGO, PARTICULARLY DIRECTED AGAINST THE U.S. HE IS OBVIOUSLY CONCERNED, HOWEVER, AND FREQUENTLY CAME BACK TO A DISCUSSION OF THE SOVIET UNION AND ITS POSITION IN THE MIDDLE EAST. HE BELIEVED THAT THERE IS A REAL POSSIBILITY THAT BREZHNEV'S TRIP WAS CANCELLED BECAUSE OF ILLNESS. HE HAS HEARD FROM OTHERS, INCLUDING THE FRENCH, THAT BREZHNEV WAS NOT WELL. BUT ALSO HE BELIEVED THERE IS A LIKELIHOOD THAT EGYPT AND THE USSR WERE UNABLE TO SECRET

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RESOLVE THEIR REAL DIFFERENCES ON MILITARY ASSISTANCE. HE FELT STRONGLY THAT THE SOVIET UNION WOULD WANT TO AVOID A DIRECT CONFRONTATION WITH THE UNITED STATES IN THE MIDDLE EAST, BUT DOES NOT RULE OUT THE POSSIBILITY THAT AS THE SOVIET UNION STRENGTHENS ITS POSITION MILITARILY IN THE AREA THROUGH ITS BUILDUP IN SUCH COUNTRIES AS IRAQ AND SYRIA THAT THEY COULD DROP AIRBORNE FORCES INTO THESE COUNTRIES, BE IN A POSITION OF GREATLY INCREASED RELATIVE STRENGTH AND STILL AVOID DIRECT CONFRONTATION WITH THE UNITED STATES. HE MENTIONED THEIR HAVING A FULL EIGHT AIRBORNE DIVISIONS AGAINST ONLY TWO AVAILABLE TO THE USA TODAY.

7. PERSIAN GULF:

HE FEELS IT IMPORTANT THAT THE UNITED STATES CONTINUE
TO "SHOW THE FLAG". THE SOVIET UNION HAS BASES AVAILABLE
TO THEM IN THE GULF AREA AND I TOOK IT THAT HE FULLY
SUPPORTED STRENGTHENING THE U.S. POSITION, E.G., DIEGO
GARCIA. HE SEEMS INTENT UPON CONVINCING NATIONS IN THE
AREA WITH WHICH HE HAS FRIENDLY CONTACT OF THE NECESSITY
FOR REGIONAL MUTUAL DEFENSE AND HE EMPHASIZED (REPEAT HE
EMPHASIZED) THAT IRAN HAD NO INTENT OF ACQUIRING ANY
TERRITORY OR ADVANTAGE. ITS OBJECTIVE WAS ONLY TO HELP
PRESERVE PEACE AND STABILITY IN THE AREA. HE MENTIONED
THE RECENT VALUABLE TRIP MADE BY AMB HELMS TO THE AREA AND
SAID HE FELT IT IMPORTANT THAT I WAS VISITING MOST OF THE
SHIEKDOMS IN THE PENINSULAR OF THIS TRIP, AS WELL AS THE

MAJOR COUNTRIES. I ASKED ABOUT THE GOI OPERATIONS IN OMAN TO HELP SUPPRESS PDRY-SUPPORTED EFFECTS IN THE DHOFAR AREA. HE SAID HE HAD TWO BRIGADES FIGHTING THERE NOW AND THEY ALREADY HAVE SUFFERED FORTY DEAD AND THAT HE HAD PROMISED TO SUPPLY ANDY AND ALL SUPPORT REQUESTED BY OMAN

8. AFGHANISTAN:

I ASKED WHETHER A SETTLEMENT WAS IN THE OFFING
REGARDING THE HELMAND RIVER TREATY DISPUTE IRAN HAS HAD
WITH AFGHANISTAN, AND TOLD HIM OF THE DISCUSSIONS I HAD
TWO YEARS AGO WITH PRESIDENT DAOUD, REPORTING THAT I HAD
DISCUSSED THE IMPORTANCE OF THEIR REACHING A SATISFACTORY
SETTLEMENT CONSIDERING THE FUTURE INFLUENCE AND GROWING
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IMPORTANCE OF IRAN IN THE ENTIRE AREA. THE SHAH INDICATED THAT IRAN HAD OFFERED CONSIDERABLE ASSISTANCE AND HELP TO THEIR NEIGHBOR, BUT THAT TERMS FOR A FINAL SETTLEMENT WERE NOT YET AGREED TO BY AFGHANISTAN.

9 RECYCLING PETRO DOLLARS:

THE SHAH INDICATED THAT HE FELT CERTAIN PARTIES WERE OVER-EMPHASIZING THE CONCERN ABOUT PETRO DOLLARS. QTE AFTER ALL THERE WERE A LOT OF EURO DOLLARS AROUND AND IT WAS POSSIBLE FOR THE DEVELOPED COUNTRIES TO HANDLE THIS PROBLEM UNOTE. HE WOULD LIKE TO SEE UNITED STATES INDUSTRY MUCH MORE AGGRESSIVE IN WORKING WITH IRAN BOTH DIRECTLY IN THEIR OWN COUNTRY AS WELL AS IN JOINT PROJECTS ABROAD. I INDICATED THAT I WOULD BE PLEASED TO WORK WITH OUR EMBASSY IN TEHRAN AND THE DEPARTMENTS OF COMMERCE AND STATE TO ALERT MY ACQUAINTANCES IN AMERICAN INDUSTRY AS TO OPPORTUNITIES THEY MIGHT BE LOSING. I EMPHASIZED THE IMPORTANCE OF IRAN'S WORKING OUT BILATERAL ARRANGEMENTS WITH SUCH COUNTRIES AS INDIA, PAKISTAN, AFGHANISTAN, BANGLADESH, SRI LANKA AND EVEN JAMAICA (FROM WHICH I HAVE JUST COME) IN RELIEVING THE CRUSHING FINANCIAL BURDEN PRESENT PETROLEUM PRICES WERE HAVING ON THEIR ECONOMIES. WE AGREED THAT THE FINANCING OF ENTERPRISES IN THESE COUNTRIES, SUCH AS LARGE COMMERCIAL FERTILIZER PLANTS, FINANCEDBY IRAN AND BASED ON TECHNOLOGICAL KNOW-HOW FROM THE UNITED STATES WOULD BE VITAL.

10. GOLD:

THE SHAH EXPRESSED CONCERN THAT COUNTRIES THAT HOLD LARGE AMOUNTS OF GOLD MIGHT SOMEHOW MANIPULATE ITS PRICE UPWARD TO THE DISADVANTAGE OF COUNTRIES THAT HAD LITTLE OR NONE SUCH AS IRAN. THIS MUST BE A MATTER OF SOME CONCERN AS COURT MINISTER ALAM MENTIONED IT SEPARATELY DURING MY

MEETING WITH HIM LATER IN THE DAY AS DID INTERIOR MINISTER AMOUZEGAR TODAY.

11. INVESTMENTS:

I COMMENTED ON CHANCELLAR SCHMIDT'S STATEMENTS AS TO THE TYPES OF OPEC SURPLUS INVESTMENTS THAT WOULD BE WELCOME IN GERMANY AND ASKED WHETHER THE U.S. HAD SECRET

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SUFFICIENTLY CLARIFIED OUR POLICY AS TO THE TYPES OF INVESTMENTS WE WOULD WANT. HE REPLIED NEGATIVELY, BUT THEN VOLUNTEERED THAT THEY HAD NEVER INTENDED TO BUY SHARES IN GRUMMAN AND DID NOT WANT TO BUY REAL ESTATE.

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EXDIS

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IRAN WOULD BE QUITE WILLING, HOWEVER, TO INVEST IN, FOR INSTANCE, 15 TO 25 PER CENT OF THE SHARES OF PAN AMERICAN IF THIS WAS ALLOWABLE, OR TAKE OVER PAN AMERICAN'S COMMERCIAL BANK INDEBTEDNESS OR BUY FIFTEEN OF THE TWENTY-FIVE EXCESS 747S THAT ALL AMERICAN AIR CARRIERS NOW HAVE. AS IRAN AIR IS EXPANDING RAPIDLY, A

COMMERCIAL LINK WITH PAN AMERICAN WOULD BE MUTUALLY ADVANTAGEOUS. IRAN IS GOING TO BE ABLE TO USE ALL OF ITS SURPLUS PETRO DOLLARS, BUT INTENDS TO USE THEM CONSTRUCTIVELY.

12. OIL AND CONSERVATION MEASURES:

WE DISCUSSED THE ARTICLE BY PETER PETERSON IN THE NEW YORK TIMES OF JANUARY 3 ENTITLED, "THE ENERGY PROBLEM: WHAT IS TO BE DONE?" AND MY OWN LETTER TO THE EDITOR IN THE SAME ISSUE OUTLINING A PROGRAM FOR ENERGY CONSERVATION. WE TALKED ABOUT WASTE OF ENERGY AND THE NEED FOR MANDATORY CONSERVATION AND VARIOUS APPROACHES TO THIS. HE STATED HIS FAMILIAR POSITION ABOUT THE OPEC PRICING POLICY OF OIL, THE COST OF DEVELOPING ALTERNATE SOURCES OF ENERGY, ASKED IF IT WAS TRUE THAT A COAL MINER RECEIVED \$80 A DAY IN WAGES, AND PROPOSED HIS INDEXATION THEORY GOING BACK TO \$2.17 OIL IN 1947 AND QUOTED SOME RATHER LARGE INCREASES SECRET

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IN COMMODITY, MATERIAL AND FINISHED GOODS PRICES THAT A COUNTRY LIKE IRAN HAS HAD TO PAY SINCE THEN. FIRST, WITH RESPECT TO CONSERVATION, I SAID THAT THERE IS A GRAVE CONCERN THAT AS OIL CONSUMPTION IS REDUCED IN ACCORDANCE WITH THE URGING OF OPEC COUNTRIES THAT PRICES WOULD JUST BE FURTHER INCREASED SO THAT THE GROSS TAKE BY OPEC COUNTRIES REMAINED AT PRESENT LEVELS, OR EVEN HIGHER, DESPITE A CUT BACK IN CONSUMPTION. THIS WOULD ACT AS A DISINCENTIVE TO THE SACRIFICES REQUIRED TO CUT CONSUMPTION. HE MENTIONED THE MERE 38 CENT INCREASE AND THE STABILITY IN PRICING THAT HAS BEEN PROMISED OVER THE NEXT NINE MONTHS, BUT AGREED WITH THE THOUGHT THAT REGULAR INCREASES IN PRICES TO OFF-SET CUTS IN CONSUMPTION COULD BE SELF-DEFEATING.

13. WITH RESPECT TO INDEXATION:

I POINTED OUT OUR CONCERN THAT SUCH A PROCEDURE WOULD VIRTUALLY GUARANTEE FURTHER INFLATION BY INSTITUTIONALIZING IT, BUT THEN REFERRED TO A WORLD BANK REPORT ENTITLED, "PROSPECT FOR THE DEVELOPING COUNTRIES", AND SHOWED HIM FIGURE 1 ON PAGE 5 WHICH FAILED TO SUPPORT HIS CONTENTION THAT THE PRICE RISES IN OTHER COMMODITIES--METALS, MINERALS, ORES, BASIC FOODS AND AGRICULTURAL NON-FOODS--HAD OUTSTRIPPED OR EVEN CAME CLOSE TO EQUALLING THE PRICE RISE IN PETROLEUM. I ASKED HIM, UNDER A SYSTEM OF INDEXATION, WHERE THE BASE LINE WOULD BE ESTABLISHED FOR FUTURE PRICING, I.E., BACK TO 1947 (WHICH IS THE DATE HE HAD MENTIONED), 1967-1969 WHICH WAS THE BASE PERIOD USED BY THE WORLD BANK FOR ITS INDEX OF INTERNATIONAL PRICES, OR WAS IT REALISTIC TO ASSUME THAT AGREEMENT COULD BE REACHED ESTABLISHING BASE PRICES AT THE PRESENT HIGH

LEVEL OF PETRO PRICES? INASMUCH AS HE HAD RAISED A
QUESTION REGARDING THE INCREASE OF PRICES OF ITEMS
PURCHASED BY THE OPEC COUNTRIES, I WOULD THEREFORE HAVE
AN ANALYSIS PREPARED GIVING EXACT FIGURES SO THAT WE COULD
BETTER DETERMINE THE EQUITY OF THE SITUATION. HE CAME
BACK BY MENTIONING THE CONSTRUCTIVE USE THAT IRAN WAS
MAKING OF ITS PETRO DOLLARS IN CONTRAST WITH CERTAIN OTHER
COUNTRIES THAT COULD NOT POSSIBLY USE THEM. HE AGAIN
EXPRESSED THE VIEW THAT HE COULD FORESEE THE TIME WHEN A
COUNTRY LIKE KUWAIT WOULD BE TAKEN OVER BY ONE OF ITS
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NEIGHBORS, I.E., BY IRAQ, ENCOURAGED BY THE SOVIET UNION.

14. MANAGEMENT DEVELOPMENT:

I ASKED THE SHAH WHETHER OPEC COUNTRIES WERE GOING TO DEVELOP ADEQUATE MANAGEMENT TO USE THEIR INCOME INTELLIGENTLY AND HOW EVEN SOPHISTICATED COUNTRIES SUCH AS IRAN WOULD BE ABLE TO ATTRACT, HOLD AND TRAIN ADEQUATE MANAGEMENT FOR THE AMBITIOUS PROGRAMS IT PROPOSED TO UNDERTAKE. HE DISCUSSED LINKS WITH INSTITUTIONS SUCH AS THE HARVARD BUSINESS SCHOOL AND WE DISCUSSED OTHER POSSIBLE ASSISTANCE AND HELP THE UNITED STATES COULD PROVIDE IN THIS AREA.

15. THE CONVERSATION WAS MOST CORDIAL AND HE URGED THAT I RETURN EVERY YEAR OR TWO EVEN IF THERE WERE NO PRESSING MATTERS AT HAND JUST TO STAY IN CLOSE TOUCH AND EXPRESSED APPRECIATION FOR STARTING MY MIDDLE EAST TRIP IN IRAN.

16. THE QUESTION OF THE POSSIBLE MILITARY TAKE OVER OF OIL FIELDS PROMINENTLY COVERED IN IRANIAN NEWSPAPERS THAT DAY AND RECENT CRITICISM OF THE SHAH IN THE AMERICAN PRESS DID NOT COME UP.

17. ADDITIONAL COMMENTS OF INTEREST FROM COURT MINISTER ALAM DURING MEETING JANUARY 5:

HE CONSIDERED MY POSITION WITH RESPECT TO OIL PRICES NOT GOING UP TO KEEP OVERALL TAKE COMPARABLE AFTER CONSUMPTION HAS BEEN REDUCED BY THE U.S. AS A FAIR AND REASONABLE ONE, BUT TALK OF REDUCING PRICES SHOULD END AS IT SERVES NO PURPOSE. HE AGREED THAT WE MUST WORK FROM COMMON SET OF FACTS TO REACH ANY DECISION ON INDEXATION. EMPHASIZED INTERDEPENDENCE OF COUNTRIES AND FELT IRAN-U.S. COOPERATION ESSENTIAL TO ACHIEVE NECESSARY STABILITY AND HELP FOR THE THIRD WORLD.

18. DEPARTMENT MAY WISH TO PASS AMEMBASSIES JIDDA, CAIRO, TEL AVIV, AMMAN AND KUWAIT AND OTHER POSTS AS

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Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006

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Subject: SENATOR PERCY'S AUDIENCE WITH THE SHAH SUMMARY: MET WITH THE SHAH SUNDAY, JANUARY 5, 10:30 A.M.

TAGS: OREP, (PERCY, CHARLES)
To: STATE

Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006